

# Internal Audit Report

## Pension Fund - Collection of Contributions

### Final

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Prepared for: East Sussex County Council  
Date: October 2023

## Internal Audit Report – Pension Fund Collection of Contributions

### Report Distribution List

**Draft:**

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Tim Hillman, Pensions Manager- Employer Engagement

**Final:**

As per draft, with the inclusion of:

Ian Gutsell, Chief Finance Officer

Ros Parker, Chief Operating Officer

Pension Board

Pension Committee

This audit report is written for the officers named in the distribution list. If you would like to share it with anyone else, please consult the Chief Internal Auditor.

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## Internal Audit Report – Pension Fund Collection of Contributions

### 1. Introduction

- 1.1. The East Sussex Pension Fund (ESPF) collects in excess of £130m annually in contributions from approximately 140 employers. The Scheme has recently been subject to its triennial valuation, and this resulted in a reduction to most employers' contribution rates from April 2023.
- 1.2. Contributions are received monthly, along with supporting information on LGPS 31 forms and via the I-Connect system (an on-line portal).
- 1.3. However, the Fund is without direct access to employers' prime accounting records, which would provide it with assurance that contributions have been collected accurately from all members of the scheme and have been paid over in full.
- 1.4. The overall objective of this audit was to explore the availability of information that would provide assurance that all pension contributions due, are being collected by employers and paid over, in full, to the Fund.
- 1.5. This audit is part of the agreed Internal Audit plan for 2023/24.
- 1.6. This report has been issued on an exception basis whereby only weaknesses in the control environment have been highlighted within the detailed findings section of the report.

### 2. Scope

- 2.1. The purpose of the audit was to provide assurance that controls are in place to meet the following objectives:
  - Contributions and supporting information are received, in full, from all employers in the Fund in a timely manner.
  - The Council makes best use of the sources of assurance available over employers' payroll (or other systems for collecting and paying contributions).

### 3. Audit Opinion

- 3.1. **Reasonable Assurance is provided in respect of Pension Fund Collection of Contributions.** This opinion means that most controls are in place and are operating as expected to manage key risks to the achievement of system or service objectives. *Appendix A provides a summary of the opinions and what they mean and sets out management responsibilities.*

### 4. Basis of Opinion

- 4.1. Controls are in place around ensuring that contributions and appropriate supporting information are received timeously from all employers. Receipt of contributions received from employers is monitored. If contributions are not received, or the amount received falls outside defined tolerance levels, this is addressed with the employer.
- 4.2. The Pension Fund also undertakes checks that received contributions are in line with the employer's determined contribution rate. These were recently subject to a triennial valuation, with new rates applicable from April 2023. Testing for a sample of employers found that all had paid contributions in line with the latest determined rates. The triennial valuation process provides a mechanism whereby any underpayment of contributions from an employer, would result in an increase in that employer's contribution percentages following the next valuation. This would correct any financial loss.
- 4.3. With increasing employer use of the i-Connect system, the Fund now also undertakes spot checks of individual employees' contributions, comparing this amount with their pensionable pay and contribution bands. However, this is currently limited by the fact that not all employers have yet been onboarded to I-Connect.
- 4.4. The above controls focus on whether contributions are correct in terms of the percentage of employees' pensionable pay. However, the ESPF is unsighted over whether the pensionable pay itself is correctly calculated and stated.
- 4.5. LGPS31 forms, which employers provide to the ESPF to support their contribution payments, must be completed by a named authorised signatory, and identify the source of assurance used to confirm that contributions have been correctly deducted and paid to the scheme (from the options on the LGPS31 form of "review by Internal Audit" and "review by management"). If the form is not correctly signed, or the source of assurance is not identified, the employer is approached to resolve this.
- 4.6. The LGPS31 forms advise employers to "retain evidence of assurance arrangements as East Sussex County Council may request them on a sample basis". We were informed that this sampling does not routinely take place. We understand this would only happen where the Fund has grounds to believe there might be an issue.
- 4.7. However, we do acknowledge that it is the employer's responsibility to ensure contribution amounts are correctly calculated and paid. Additionally, obtaining assurance over employers' payroll arrangements is not a specific requirement of the Pension Regulator's Code of Practice no.14 (CoP 14), relating to the governance and administration of public service pension schemes.
- 4.8. We have found that, whilst employers are marking their LGPS forms to indicate the sources of assurance obtained to support their contributions, in practice, these assurances are often weak or non-existent. For instance, where employers cited 'management review', most were only able to provide payroll reports that bore no obvious sign of review.

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- 4.9. We also found that whilst information on Local Authorities' internal audits is publicly available via their websites, this is not generally the case for other employers in the Fund. Where information on audits of payroll was found to be publicly available, the information is often not detailed enough to provide clear assurance around the accuracy of pension contributions.
- 4.10. Whilst the Council does not make use of the sources of assurance held by employers over their payroll systems, our work has found that these were time-consuming to obtain, and the information available was not of sufficient quality to provide meaningful assurance to the Fund around employers' correct calculation of pensionable pay. This limits the actions that management can usefully take and is wholly outside its control.
- 4.11. The Fund's resources are focussed in areas that more clearly underpin ensuring that contributions are received, such as the monitoring of monthly contributions from all employers, and the onboarding of more employers to i-Connect, where spot-checks of individual employees' contributions can occur. These activities are in line with CoP 14), which does not specify a requirement to obtain assurance over employers' payroll arrangements but states that "*Schemes should apply a risk-based and proportionate approach to help identify employers and situations which present a higher risk of payment failures occurring*".

### 5. Action Summary

- 5.1. The table below summarises the actions that have been agreed together with the risk:

Risk	Definition	No	Ref
High	This is a major control weakness requiring attention.	0	N/A
Medium	Existing procedures have a negative impact on internal control or the efficient use of resources.	0	N/A
Low	This represents good practice; implementation is not fundamental to internal control.	1	1
<b>Total number of agreed actions</b>		<b>1</b>	

- 5.2. Full details of the audit findings and agreed actions are contained in the detailed findings section below.
- 5.3. As part of our quarterly progress reports to Audit Committee we seek written confirmation from the service that all high priority actions due for implementation are complete. The progress of all (low, medium and high priority) agreed actions will be re-assessed by Internal Audit at the next audit review. Periodically we may also carry out random sample checks of all priority actions.

### 6. Acknowledgement

- 6.1. We would like to thank all staff that provided assistance during the course of this audit.

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**Detailed Findings**

Ref	Finding	Potential Risk Implication	Risk	Agreed Action
1	<p><b>Employers' Assurance Over Their Payroll Systems</b></p> <p>A sample of ten employers in the Fund was contacted and requested to provide evidence of the assurance they had stated to have been used on recently completed LGPS31 forms.</p> <p>The responses did not demonstrate suitable awareness from employers as to what constitutes assurance, resulting in concerns that they may not fully understand the requirements of the relevant section on the LGPS31 form when completing this.</p> <p>Two employers failed to respond to the request.</p> <p>Six employers stated assurance had been provided via management review, but only one provided evidence of such review in the form of a management signature.</p> <p>Of the two employers who stated assurance was provided by Internal Audit<sup>1</sup>, (in addition to management review), neither provided related evidence.</p>	<p>Where employers do not fully understand their responsibilities with regard to the provision of assurance over the accuracy of their pensionable pay and pension contributions, there is an increased risk that the fund does not receive all contributions owed.</p>	<p>Low</p>	<p>The Fund will use Employer Forums, Employer Newsletters and take other opportunities to provide training to employers about their responsibilities in relation to the calculation of pension contributions.</p>

<sup>1</sup> The employers' Internal Audit functions  
**East Sussex County Council**

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Detailed Findings**

Ref	Finding	Potential Risk Implication	Risk	Agreed Action
	In the two sampled instances where a form of assurance had not been marked on the LGPS31 form, both employers were found to have outsourced their payroll arrangements, which appeared to result in confusion around the responsibility to provide assurance.			
<b>Responsible Officer:</b>		Tim Hillman, Pensions Manager - Employer Engagement	<b>Target Implementation Date:</b>	31/12/2023

# Appendix A

## Audit Opinions and Definitions

Opinion	Definition
<b>Substantial Assurance</b>	Controls are in place and are operating as expected to manage key risks to the achievement of system or service objectives.
<b>Reasonable Assurance</b>	Most controls are in place and are operating as expected to manage key risks to the achievement of system or service objectives.
<b>Partial Assurance</b>	There are weaknesses in the system of control and/or the level of non-compliance is such as to put the achievement of the system or service objectives at risk.
<b>Minimal Assurance</b>	Controls are generally weak or non-existent, leaving the system open to the risk of significant error or fraud. There is a high risk to the ability of the system/service to meet its objectives.

## Management Responsibilities

The matters raised in this report are only those which came to our attention during our internal audit work and are not necessarily a comprehensive statement of all the weaknesses that exist, or of all the improvements that may be required.

Internal control systems, no matter how well designed and operated, are affected by inherent limitations. These include the possibility of poor judgment in decision-making, human error, control processes being deliberately circumvented by employees and others, management overriding controls and the occurrence of unforeseeable circumstances.

This report, and our work, should not be taken as a substitute for management's responsibilities for the application of sound business practices. We emphasise that it is management's responsibility to develop and maintain sound systems of risk management, internal control and governance and for the prevention and detection of irregularities and fraud. Internal Audit work should not be seen as a substitute for management's responsibilities for the design and operation of these systems.